



Remarks of Gordon van Welie President and CEO ISO New England Inc.

FERC's Regional New England Technical
Conference

Boston, Massachusetts

May 20, 2003

Topics

- Background on ISO-NE's Major Initiatives
- New England's Status in Light of White Paper
- Where Do We Go From Here? RTO or ISO?

Background

Major Initiatives of Past Several Years

- Improve Market Design
- Create an RTO

Efforts to Improve Market Design

- Interim markets were implemented with known design flaws.
- Major market design improvements planned over multi-year period.
- Lengthy stakeholder process to develop the new market design.
- Standard Market Design implemented successfully on March 1, 2003.

Wholesale Market Platform

- White Paper: Each RTO/ISO must satisfy minimum requirements of platform.
- ISO New England: New SMD market satisfies minimum requirements: (1) day-ahead and real-time energy markets; (2) transparent congestion management methods; and (3) Financial Transmission Rights for congestion hedging.
- Next Steps: Planned developments include reserve markets, locational ICAP and enhanced demand response.

Efforts to Create an RTO

- ISO-NE initially applied for RTO status on January 16, 2001
 - FERC rejected filing for reasons including lack of independence from market participants.
- ISO-NE and NYISO pursued formation of Northeast RTO in 2002
 - RTO filing withdrawn due to stakeholder opposition, likelihood of significant litigation and uncertainty regarding timing of Standard Market Design rulemaking.

Efforts to Create an RTO

- ISO-NE and Transmission Owners, in consultation with market participants and state regulators, currently negotiating contents of a joint filing to establish a New England RTO
 - Process includes discussions via working groups addressing governance, transmission/market seams, regional system planning, tariff, Transmission Operating Agreement (TOA), Market Participant Service Agreement (MPSA).
 - Target date for filing is October 2003.

Where Are We Now

- Governance/Independence
- Tariff Administration and Design
- Interregional Coordination/Seams
- Cost Allocation
- System Planning
- Resource Adequacy

INDEPENDENCE/GOVERNANCE:

Issue #1: Structure (RTO or ISO?)

- White Paper: Requires all public utilities to join an RTO or ISO. An ISO has all of the characteristics and functions of an RTO except scope and regional configuration.
- ISO New England: Currently a non-compliant ISO, and uncertain if a New England-only ISO could be an RTO.
- Next Steps: Absent direction to the contrary, continue efforts to satisfy RTO requirements.

INDEPENDENCE/GOVERNANCE:

Issue #2: Independence

- White Paper: Requires RTOs and ISOs to meet independence requirement of Order 2000.
- ISO New England: Currently does not meet the criteria due to relationship with NEPOOL and NEPOOL's 205 rights.
- Next Steps: Develop Stakeholder Agreement and finalize Transmission Operating Agreement. New agreements will restructure governance consistent with FERC's independence requirements.

INDEPENDENCE/GOVERNANCE:

Issue #3: Independent Market Monitoring Unit

- White Paper: Each RTO/ISO must have an independent market monitor and clear rules on market participant conduct.
- ISO New England: Internal market monitor reports to CEO and Board. External market advisor reports directly to the Board. Market rules address market participant conduct re: (1) physical and economic withholding; (2) reporting of unit availability; (3) factual accuracy of data submissions; (4) information sharing and cooperation with the market monitor; and (5) physical feasibility of bid submissions for specific units.
- Next Steps: Determine whether any changes needed through New England RTO discussions. →

L200

TARIFF ADMINISTRATION AND DESIGN:

Issue #4: Tariff Administration

- White Paper: Requires RTOs and ISOs to administer own transmission tariffs.
- ISO New England: Currently does not meet the criterion; administers NEPOOL's tariff.
- Next Steps: Negotiate a Transmission Operating Agreement pursuant to which ISO becomes the transmission provider and assumes responsibility for most 205 rights over tariff.

TARIFF ADMINISTRATION AND DESIGN:

Issue #5: Regional State Committees

- White Paper: RTOs/ISOs must provide a forum for state officials to participate in decision-making through regional state committees.
 - Committee structure determined by state officials.
 - RSCs responsible for resource adequacy, cost allocation and other transition issues if consensual agreement.
- ISO New England: Currently has regular meetings with state public utility commissioners, and sometimes other state officials (attorneys general, consumer counsels); there is no official organization with decisional role.
- Next Steps: Secure guidance from states on structure of RSC in New England.

TARIFF ADMINISTRATION AND DESIGN:

Issue #6: Export Fees

- White Paper: RTOs/ISOs should eliminate export fees if there is not a notable trade imbalance.
- ISO New England: T&O Service charge for exports to NY; trend in trades from imports (from NY) to exports (to NY), but still wide variability day-to-day.
- Next Steps: ISO and TOs will address this issue in context of New England RTO. Consultation with NY and New England stakeholders as appropriate.

TARIFF ADMINISTRATION AND DESIGN:

Issue #7: Liability/Indemnification

- White Paper: Limit liability of RTOs/ISOs to direct damages resulting from gross negligence.
- ISO New England: Liable to market participants for direct damages from willful misconduct or willful breach; indemnified against third party liability except for gross negligence or willful misconduct (i.e. protected against loss of load liability).
- Next Steps: New contractual and tariff arrangements will maintain protection from loss of load liability; maintain threshold for liability to market participants (no less than gross negligence).

INTERREGIONAL COORDINATION/SEAMS:

Issue #8: Interregional Coordination

- White Paper: ISOs not required to meet “scope and configuration” requirement, but must pursue interregional coordination.
- ISO New England: Developing proposals to achieve benefits of a larger RTO within multi-ISO region.

INTERREGIONAL COORDINATION/SEAMS:

Issue #8: Interregional Coordination (cont'd)

- Next Steps: Continued development of Virtual Regional Dispatch and ICAP Net Obligation proposals, including coordination with NY and Ontario.
 - White Paper on regional dispatch released May 19.
 - Joint meeting with NY stakeholders on May 29.

COST ALLOCATION:

Issue #9: Transmission Upgrade Cost Treatment

- White Paper: RSC may play a role in determining regional pricing policy. Regional flexibility in choice of cost allocation methodology.
- ISO New England: ISO identifies necessary upgrades through a stakeholder process culminating in a regional plan. Generator interconnections are participant funded. Stakeholder workshops considering modifications to pricing policy for new PTF facilities.
- Next Steps: NEPOOL/ISO to file a new proposed cost allocation reflecting New England's unique characteristics.

TRANSMISSION PLANNING:

Issue #10: ISO's System Planning Process

- White Paper: RTOs/ISOs to produce technical assessments of the regional grid.
- ISO New England: Develops an annual system plan, includes consideration of demand response. Demand response participation increased by 50% relative to 2002.
- Next Steps: Finalize revisions to system planning process through RTO development discussions.

RESOURCE ADEQUACY:

Issue #11: Regional Adequacy and Locational ICAP

- White Paper: Regional flexibility to determine appropriate regional adequacy mechanisms, with participation of RSCs.
- ISO New England: Working with PJM, NYISO and stakeholders to develop common resource adequacy mechanism for Northeast. Developing locational ICAP feature for implementation during 2004.
- Next Steps: Continue efforts to develop larger regional market and market enhancements.

Where Do We Go From Here?

File to become an RTO

or

File to be a compliant ISO.